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Held at the Vienna International Centre, Vienna,
on Wednesday, 28 June 1995, at 10 a.m.

President: Mr. MAZILU (Romania)

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The meeting was called to order at 10.20 a.m.

ANNUAL REPORT OF THE DIRECTOR-GENERAL FOR 1994 ON THE ACTIVITIES OF THE ORGANIZATION, INCLUDING PROGRESS REPORT ON SPECIFIC ACTIVITIES *(continued)* (IDB.14/10, IDB.14/10/Add.1 and Corr.1, IDB.14/10/Add.2 and Corr.1, IDB.14/10/Add.3; IDB.14/CRP.5)

UNIDO TECHNICAL COOPERATION ACTIVITIES IN 1994 *(continued)* (IDB.14/14; IDB.14/CRP.1)

1. **Mr. SVENDSEN** (United States of America) said that the last speaker at the fourth meeting had made a lengthy series of irrelevant comments about the United States Government, one of which called for a response. The suggestion that the Board might include, in each of its decisions, a statement expressing regret at the decision on financial matters announced by the United States at the first meeting was intended to be a means of sending a message to his Government. Anyone with knowledge of the United States Government and its processes would realize immediately that such a course would be strongly counter-productive. The United States had reached a difficult time in its budgetary process in regard to contributions to United Nations organizations, and one at which the Board would not wish to send wrong signals. His delegation would vigorously oppose any attempt to have any such messages inserted in draft resolutions, decisions or statements being considered by the Board.

2. In order to clarify the statement made by his delegation at the first meeting, he wished to emphasize that his Government had accepted that its assessment for UNIDO was 25 per cent; it was not trying to change that, as had been suggested. It had accepted that its assessed contribution to UNIDO would total some $28 million in 1995. The Board had been notified at the beginning of the session that its actual payment in 1995 would be less than that amount, and would probably amount to some US$ 12 million. His Government had not contested the fact that the unpaid amount would be added to its arrears, which currently amounted to some US$ 8 million, nor that it would be the recipient of an additional assessment for UNIDO contributions in 1996.

3. Parts of the statement made by the United States at the first meeting, particularly those regarding the payments situation, would have disappointed some Member States and even members of his own delegation. It had been made at that time because the Board needed to be fully informed of the payments situation of all its Members. The United States payment was large enough to make a difference to the Organization and informed decisions on the subject would have to be made on the basis of the best possible knowledge available. Anyone with questions to ask about the position of the United States was urged to discuss the matter with a member of the delegation rather than make statements which might be misleading or erroneous.

4. **Mr. DE MARIA Y CAMPOS** (Director-General) thanked those delegations which had commended the Secretariat on the content and format of the new Annual Report. Even though it still offered room for improvement, it demonstrated the new spirit in UNIDO. All the Organization's publications needed to be improved in order to get the message of the new UNIDO across, and many were already starting to appear in a more user-friendly manner so as to convey the results of the Organization's work. The Global Industrial Development Report would be published in time for the General Conference in a wholly new format and content, and as a result be much more effective in pointing out the trends in industrial development around the world. It would be distributed commercially in English, French and Spanish.

5. The representative of France had alluded to the need to improve interaction between the various divisions of the Organization in technical cooperation programming. The Secretariat, through its internal coordination mechanisms, had achieved some success in that respect in the area of programme formulation and programme missions. Programme missions to African countries in the latter half of 1994, for example, had involved the close collaboration of various divisions, and with that team approach had produced important results. Efforts had also been made to guarantee the kind of inter-divisional cooperation which would result in more effective action. Where a specific investment programme for Africa was concerned, for example, action was taken to ensure that people from investment and technology in the African region participated in the programme. The fundamental approach for the future was clear from the seven thematic priorities which he had proposed. In each case the programmes which had been formulated would have a multidisciplinary approach. It was confidently expected that with the assistance of external consultants more would be learned about ways in which that kind of approach could be improved. Staff awards would be made for teamwork, effectiveness, quality, services and creativity. Although much still needed doing to change the institutional culture of the Organization, the Secretariat was confident that it was now going in the right direction.

6. The representative of France had also referred to the apparently low implementation of two kinds of output related to UNIDO's programming framework, namely country support strategies and country programming briefs. Seven country support strategies had been completed, not one, and 29 more were in various stages of preparation; many of those were expected to be finalized in the course of the year. The Secretariat considered that to be a fairly satisfactory achievement, given that country support strategies were an innovative and resource-intensive programming instrument which required governmental endorsement. In some cases, Governments had indicated that the time was not suitable for preparing them. The new instrument of country strategy notes had been introduced into the United Nations system as a whole at the end of 1992 and had so far resulted in the completion of only four such notes at the United Nations level. Some misunderstanding clearly existed with respect to country programming briefs. Since they were recurrent UNIDO activities which would be continuously updated, they had not been included as specific outputs in the programme performance report, although a total of 103 country programming briefs had been finalized. The same applied to the thematic and subsectoral programming frameworks. Although they had not been reported on separately in the programme performance report, most of those frameworks had been prepared by the substantive units concerned. In some cases, such as that of the African countries, some fundamental updating was needed as soon as possible, due, in the African case, to the radical changes which had taken place in recent years in the assumptions on which the Second Industrial Development Decade for Africa had been based.

7. The representative of Belarus had pointed out that the excellent conceptual work done by UNIDO on projects related to the Chernobyl accident had not yet resulted in their implementation. UNIDO had been very active in seeking to mobilize funds for those projects, among other things through its liaison office in Geneva. So far those efforts had been unsuccessful, a situation which confirmed that the Organization's full effectiveness was contingent upon the readiness of Member States to support its work through voluntary financial contributions. The previous day the Programme and Project Review Committee (PPRC) had approved a project for Belarus from the Organization's own resources relating to policy advice on an industrial restructuring concept.

8. With regard to the information sought by the Philippines about UNIDO's service management process, the present internal review would not call into question the main principles laid down in the Guidelines for the Management of UNIDO Services (UNIDO/DG/B.177). Those principles continued to be valid, and their framework within the internal review would focus on further simplification of existing processes and, in particular, on extending the Guidelines to cover project implementation, monitoring and evaluation. The information requested by the delegation of the Philippines with regard to the countries covered by the country programming briefs and those for which country support strategies were under preparation would be transmitted to it. The monthly management reports referred to in paragraph 5 of chapter IV of the Report (IDB.14/10) could not be made accessible to Governments as they were purely internal monitoring tools.

9. Interested delegations would be glad to know that specific information on UNIDO's project approvals and the sources of funds involved was available internally and that a mechanism would be established, possibly through the PPRC secretariat, to provide it in an efficient and convenient manner to Member States. The necessary changes were under way in the information system to enable the Permanent Missions in Vienna to access information directly.

10. Switzerland had asked about the follow-up of Techmarts organized by UNIDO. Increased attention was being given to follow-up requirements and support provided to negotiating parties following Techmarts, through an advisory facility available at Headquarters. The Organization was advising Governments on the fundamental role they and the private sector could play in follow-up support through appropriate institutions. In connection with the Techmarts organized in India, for example, a tripartite institutional framework had been established, involving the Government, industry and UNIDO, to follow up the business negotiations held during the Techmarts. That kind of initiative set an example for future action in other countries in which UNIDO was involved in investment promotion and technology matters.

11. With regard to the question raised by Switzerland about UNIDO's demonstration projects and the way in which industrial associations were involved in spreading benefits, he said that the Organization undertook projects related to clean air production centres that demonstrated pollution prevention and the economic and environmental benefits it brought. Three instruments were used to propagate results to the industrial sector: the preparation of informational and promotional material for industry, the holding of enterprise-level workshops which publicized the results achieved, and the training of technicians and building of national capabilities to pursue clean air production efforts. Industrial associations and other institutions were involved in all those areas.

12. Several delegations had made a number of important suggestions about training. Human resource development was fundamental to the Organization's present work and had been included among the five objectives established at the fifth session of the General Conference. Although not specifically included among his seven proposed thematic priorities, it was an underlying theme which supported all those objectives and was a fundamental element in investment promotion, technological development, agro-industrial development and environmental issues. Consequently, UNIDO had been concentrating on the training of trainers and on new methodologies which should enable it to get the most out of its efforts. The Secretariat would welcome suggestions on the subject. Training problems nevertheless continued. The figures provided showed a slight decrease in the training components of projects, which had occurred because the role of UNDP-financed projects had been considerably reduced. A training component was normally included in such projects but traditionally had not been included in projects undertaken with voluntary contributions. The Organization would have to try to improve the participation of the training component in projects and hoped that the necessary support would be forthcoming to enable it to do so.

13. In view of the Organization's dwindling resources the Secretariat's task of technical cooperation was not easy, but the voluntary contributions of new donors and the fact that resources had been mobilized from other non-traditional sources had resulted in some success. The Organization could do much more and was ready to do so, but it needed the necessary resources.

REPORT OF THE PROGRAMME AND BUDGET COMMITTEE:

(a) SCALE OF ASSESSMENTS

(b) INTERIM FINANCIAL PERFORMANCE REPORT AND PROGRAMME PERFORMANCE REPORT

(c) PROGRAMME AND BUDGETS, 1996-1997

(d) WORKING CAPITAL FUND

(e) APPOINTMENT OF EXTERNAL AUDITOR

(f) ELECTRONIC DATA-PROCESSING PROGRAMME

(g) FINANCIAL SITUATION OF UNIDO

(h) INDUSTRIAL DEVELOPMENT FUND

(i) UNIDO COUNTRY DIRECTOR PROGRAMME

(IDB.14/2 and Corr.1, IDB.14/3, IDB.14/4 and Add.1, IDB.14/5, IDB.14/6 and Add.1, IDB.14/9, IDB.14/10/Add.1 and Corr.1, IDB.14/10/Add.2 and Corr.1, IDB.14/10/Add.3, IDB.14/13, IDB.14/20, IDB.14/25, IDB.14/26, IDB.14/28; IDB.14/CRP.3; PBC.11/8 and Corr.1)

14. **Mr. DE MARIA Y CAMPOS** (Director-General) said that, following the United States statement at the first meeting, the programme and budgets for 1996-1997 required the closest attention. On account of the uncertainties of the past six months, UNIDO had looked closely at its expenditure and level of savings. If the United States contribution was as low as its delegation had suggested, UNIDO could deal with the situation but only through great effort and enormous sacrifice, by curbing a large number of activities, stopping recruitment and embarking immediately on an emergency plan. The Organization could not be expected to reach all the objectives set for the year if 25 per cent of its budget did not come through, although every effort would be made to achieve them. In the period 1996-1997, it would have to consolidate its reforms. If it wished to implement the new priorities, the budget must be kept intact, bearing in mind that there might be other reductions in payments. Member States would therefore need to take a supportive but pragmatic approach to funding UNIDO and make every effort not only to pay their assessed contributions but also to make the highest possible level of voluntary contributions to the operational budget.

15. The Board had before it a budget which had been endorsed by the Programme and Budget Committee. The Secretariat would be able to make more specific budgetary suggestions when further information was made available by the United States about its intentions. In the meantime it would ensure that any financial adjustments made during the next biennium would not detract from the emphasis placed on, or the resources allocated to, the stated priorities or programmatic themes of UNIDO, and that adjustments would fall largely on administrative and non-developmental expenditure. The technical cooperation budget would be preserved as far as possible. The Secretariat would consider any suggestions from Member States as to how the Organization might proceed. A financial contingency plan was one possibility. The proposed budget as it stood was the best proposal feasible. The Board needed to incorporate into it whatever procedure it might deem fit to enable the Organization to make the necessary adjustments at the appropriate time.

16. **Mr. VAN RAALTE** (Managing Director, Division of Administration) said that he would introduce subitems (a) to (g) of agenda item 7.

17. On the scale of assessments, item 7 (a), he drew attention to the Secretariat's note (IDB.14/4 and Add.1) and the conclusion adopted by the Programme and Budget Committee (IDB.14/9, para. 20) recommending that the Board propose to the General Conference the establishment of a scale of assessments for 1996-1997 based on General Assembly resolution 49/19 B, adjusted for the membership of UNIDO, and that new Members of UNIDO be assessed for the year in which they

became Members on the basis of the United Nations scale of assessment as applicable to UNIDO.

18. Under item 7 (b), Interim financial performance report and programme performance report, the Director-General's report to the Committee on significant financial developments in 1994, as well as the programme performance report requested by the General Conference at its fourth session, were contained respectively in document PBC.11/8 and Corr.1 and in document IDB.14/10 and Add.1 and Corr.1. In addition, information on trust fund contributions and specific activities was before the Board in documents IDB.14/10/Add.2 and Corr.1 and IDB.14/10/Add.3 respectively. Document PBC.11/8 summarized UNIDO's financial performance during 1994, itemizing the utilization of financial resources in that year and showing the final balances and statement of assets, liabilities and surpluses at 31 December 1994. He would return to that topic when introducing item 7 (g).

19. In connection with item 7 (c), Programme and budgets, 1996-1997, the Committee had reviewed the proposed budget (IDB.14/2 and Corr.1) at its eleventh session and had recommended that the Board adopt it for submission to the General Conference. Its conclusion (conclusion 95/8) contained the financial estimates for the regular and operational budgets, but the Board would have to take into account the implications for the 1996-1997 budget of the statement made by the United States.

20. With regard to item 7 (d), the Board had to recommend to the General Conference the amount and purposes of the Working Capital Fund, which was intended to finance budgetary appropriations pending the receipt of contributions and also to finance unforeseen and extraordinary expenses. The Fund had to be reimbursed once delayed contributions were received. At its last session the General Conference had decided that the level of the Working Capital Fund should be US$ 9 million and that the authorized purposes of the Fund for the 1994-1995 biennium should remain the same as for earlier bienniums. During 1994, cash balances had remained adequate to meet shortfalls, mainly as a result of the decision of the General Conference to allow UNIDO to retain the unutilized balances of the 1988-1989 and 1990-1991 bienniums. Consequently, there had been no need to make withdrawals from the Fund in 1994 and the cash balance at the end of the year had been US$ 8.8 million, roughly the same as at the beginning. In view of that, the Committee had submitted a draft decision to the Board recommending to the General Conference that the level and purposes of the Working Capital Fund remain the same for 1996-1997 as for the 1994-1995 biennium. The Committee's conclusion (conclusion 95.10) also urged Member States to pay their outstanding assessed contributions as soon as possible in order to minimize the need to withdraw sums from the Working Capital Fund.

21. In connection with item 7 (e), Appointment of External Auditor, he recalled that at its fifth session the General Conference had appointed the President of the Federal Court of Auditors of Germany as UNIDO's External Auditor for a two-year period starting in July 1994. In conclusion 95/7 the Committee had recommended to the Board a draft decision by which the General Conference would approve an extension of the term of office of the present External Auditor for a period of two years, i.e., from July 1996 to June 1998.

22. Turning to item 7 (f), Electronic data-processing programme, he recalled that at its fourth session the General Conference had requested the Director-General to report regularly to subsequent sessions of the policy-making organs on the electronic data-processing (EDP) programme, the recommendations of EDP consultants and those of the External Auditors. That had been done. In view of the progress of the EDP programme, the Committee had submitted a draft decision to the Board (conclusion 95/13, para. (b) (iii)) recommending to the General Conference that it should rescind the mandatory reporting requirements imposed by the General Conference at its fourth session. In the same conclusion the Committee had requested the Director-General to submit information to the Board on the modalities of establishing electronic networking arrangements between UNIDO and the Permanent Missions in Vienna. The Director-General's report (IDB.14/CRP.3) concluded that for between US$ 2,000 and US$ 3,000 Missions could establish an electronic mail connection with UNIDO and with other databases around the world. A questionnaire was attached to the report to allow Missions to express interest. UNIDO would be prepared to coordinate such requests so as to obtain the best offer from qualified vendors for all Missions interested.

23. Several new computerized systems had recently been introduced in UNIDO, including a streamlined experts recruitment system, the first phase of a procurement system and an organization-wide travel monitoring system. Moreover, by the end of July 1995 all UNIDO workstations would have Internet access capability for electronic mail and file transfer and many users would be able to search external databases. That would improve communications and significantly reduce the cost of internal communications. Steps were under way to put UNIDO on the Internet, millions of whose users would be able to access UNIDO's databases, enquire about personnel vacancies or find out other information about the Organization.

24. With regard to item 7 (g), Financial situation of UNIDO, before providing an update on that current subject he would deal with two questions: whether the 6 per cent limit on regular budget resources devoted to technical cooperation could be raised, and what were the budgetary implications of the transfer of UNIDO's Languages and Documentation Service to the United Nations Office at Vienna (UNOV), which had taken place on 1 April 1995. On the first point, document IDB.14/6/Add.1 supplemented an earlier report on the 6 per cent ceiling (IDB.14/6-PBC.11/9) which had been prepared for the Committee. The addendum provided information on the implications of a change in the limit and described the legal process involved in changing the constitutional provision setting the limit, as well as the budgetary implications of increasing it, a process which, in a zero real-growth situation, meant scaling down other programmes in the regular budget correspondingly.

25. On the second matter, document IDB.14/20 described the personnel and budgetary implications of the transfer and the changes made in the 1994 budget in order to reflect it. The document detailed the transfer of posts and staff, as well as adjustments to the 1994-1995 budgets, to reflect changes in budgeted income, and the establishment of new objects of expenditure to cover future payments to UNOV. It also presented a revision of the approved 1994-1995 appropriations by major programme and major object of expenditure which, in total, remained within the approved budgetary levels for the biennium.

26. The Director-General's report on the current financial situation of UNIDO (IDB.14/28) provided an update of assessed contributions to the regular budget and Working Capital Fund as at 31 May 1995, as well as a cash flow analysis and information on the financial outlook for the remainder of 1995. An important new development in that regard was the possibility of a substantial reduction in the contributions anticipated in 1995 from a major contributor. The paper discussed the steps being considered to deal with a possible reduction in cash resources, including a variety of measures to reduce expenditure in non-staff and, if necessary, staff expenditures.

27. In order to help alleviate that likely contingency, two immediate measures were proposed for the Board's consideration. First, in accordance with Committee conclusion 95/4, the Board was invited, in paragraph (b) of the draft decision in paragraph 20 of the report of the Director-General (IDB.14/28), to recommend to the General Conference that it approve the temporary suspension of financial regulations 4.2 (b) and 4.2 (c) so as to allow UNIDO to retain the unutilized balances from the 1992-1993 biennium in order to strengthen its cash resource base. In addition, the report proposed the establishment of a reserve fund to cover unforeseen costs. The reserve would be funded from 1994-1995 resources which, owing to vacancies and other factors, would not be fully committed during the current biennium.

28. **Mr. MUEGGE** (Director, Strategic Planning Office), introducing item 7 (i), drew attention to the Director-General's note on a new framework for field representation (IDB.14/25). The note proposed two options with a view to a more effective presence of UNIDO in the field: the gradual expansion of the number of field offices to 50 and the establishment of a network of a smaller number of multi-country offices with enhanced substantive capacity. Those two options were linked to different scenarios according to availability of resources. A stronger field presence was one of the fundamental components of the reform process of UNIDO initiated in 1993 and a prerequisite for more efficient and effective delivery of its services. It would also be in line with a system-wide move towards delegation of authority and decentralization of activities recommended by the General Assembly, in resolution 47/199. The implementation of the Board's recommendation would depend on the financial outlook of the Organization. In that connection he was pleased to announce that a positive decision had been reached at the recent annual session of the UNDP Executive Board on the allocation of an additional amount of US$ 3 million from UNDP core resources for the UNIDO Country Director programme in 1997.

29. Clearly, certain premises on which the proposals were based were no longer valid. The Secretariat would have to monitor carefully the overall financial situation in 1995 and beyond and reach an optimal coverage of field representation with maximum effectiveness. Efforts to redeploy posts from Headquarters to field offices and to secure voluntary contributions from Member States and from present and prospective host countries, as well as further support for the Junior Professional Officer and Associate Experts programme, would need to be pursued simultaneously. The Secretariat would keep Member States fully informed and report to the Organization's legislative organs on developments in that regard.

30. **Mr. DEROY** (Managing Director, Mobilization and Management of Financial Resources Division), introducing agenda item 7 (h), Industrial Development Fund, said that the Fund played a crucial role in the reform process. New priorities required new capacities in the field and the launching of practical activities in the form of programmes and projects. Extrabudgetary voluntary contributions to UNIDO were more essential than ever. The resources received in 1995 through the Industrial Development Fund and special trust funds

gave cause for cautious optimism. The volume of approvals to date was the same as at the corresponding time in 1994 and the total approvals for 1995 would probably be higher than in the previous year.

31. With a number of new activities being carried out, he expressed the Organization's thanks to Governments that had provided additional support for UNIDO's strengthened programme for small and medium-sized enterprises, as well as supplementary trust funds for emergency assistance and additional contributions for assistance to the countries of Eastern Europe and the former Soviet Union. The promotional efforts of the UNIDO Country Director in Indonesia had resulted in the first extrabudgetary voluntary contribution from New Zealand, demonstrating that field representation could be decisive in mobilizing financial support for UNIDO projects in recipient countries. Some donors had adopted a reserved attitude, awaiting concrete results from the reform before taking a decision on their future contributions. He believed they would resume active financial cooperation with UNIDO once the positive results of UNIDO's endeavours to set priorities and focus efforts had been clearly demonstrated. An addendum to the Organization's annual report (IDB.14/10/Add.2) contained information on trust fund contributions. In future that information would be supplied regularly in addition to the information on the Industrial Development Fund.

32. **Mr. DASQUE** (France), speaking on behalf of the European Union, said that the announcement by the United States representative of a large reduction in his Government's contribution to the UNIDO budget placed the Organization in a difficult position. As far as 1995 was concerned, the announcement would affect a budget already voted with the agreement of all Member States. All Members were obliged to meet such commitments in good faith according to international law. The European Union trusted that the United States would settle its contribution for 1995 once its financial difficulties had been resolved. The budget for 1995 was already in course of execution and could not be amended. How was the loss of more than half the United States contribution to be offset? The European Union considered that it was not for other States which contributed to UNIDO to make up for the consequences of one Member State's unilateral decision. It therefore requested the Secretariat to work out a detailed plan of savings and other appropriate measures for 1995, to be implemented as soon as possible and submitted to Member States for information.

33. As far as the 1996-1997 budget was concerned, the serious financial position facing donors and recipients would not be temporary. UNIDO must therefore adopt structural adjustment measures to allow it to operate within its resources. At the present stage, in view of the uncertainties surrounding UNIDO's income, the European Union considered that it was not possible to establish a realistic budget. Consequently, the Director-General should prepare alternative budget proposals so that when the situation was clarified a realistic budget might be adopted at the next session of the General Conference. It would be unreasonable for the current 1996-1997 budget proposals to be adopted in December when it was already obvious that much of the necessary resources would not be available. In that connection it would be useful if the Secretariat would remind the Board of the procedure to be followed for the approval of a scaled-down budget by the Board before its adoption by the General Conference. It might be necessary to hold an extraordinary session of the Programme and Budget Committee to formulate a new budget before the next session of the General Conference.

34. As to the unutilized balances from the 1992-1993 biennium, he recalled that at the Committee's last meeting the European Union had opposed the use of those surpluses for the UNIDO Country Director programme because of the Organization's uncertain financial future. The Union had therefore noted with interest from document IDB.14/28 that the Organization had very properly started to think about emergency plans to meet an increase in arrears of mandatory contributions. It had also noted the Secretariat's request for suspension of financial regulations 4.2 (b) and 4.2 (c) so that it could use the balances he had mentioned. The European Union did not believe that the financial regulations should be suspended whenever it suited the Organization. When the General Conference had agreed at its fifth session to the temporary suspension of financial regulations 4.2 (b) and 4.2 (c), it had also decided that the suspension should not constitute a precedent. It was a doubtful expedient to use the unutilized balances in question as a means of financing the remainder of the present budgetary period. They should be kept in reserve pending clarification of the situation. That in no way prejudged the final use of those sums, a matter which could only be decided when all the relevant facts were available. Having said that, the European Union recognized that UNIDO was facing a genuine crisis. It wished to assist the Organization and appealed to Member States to settle their dues.

35. Turning to the UNIDO Country Director (UCD) programme, he welcomed document IDB.14/25 for its realistic tone and understood that it would be difficult at present to justify even a modest increase in the programme. Although the news of UNDP's financial support for the 1997 programme was encouraging, the European Union considered that UNIDO should for the

moment make only limited improvements to the programme in the light of the resources available.

36. For example, a number of the drawbacks of the present programme identified by the consultants could be corrected at little or no cost, and there were several parts of the programme to which the Organization could already give thought. For instance, the present functions of UNIDO's various divisions and units with regard to field activities should be analysed in depth in order to determine the location and number of field posts and the level of resources to be redeployed from Headquarters to the field. The reporting system should be made the subject of guidelines aimed at improving the quality of the periodic activity reports, a step which would enable UNIDO to take decisions on personnel and resource allocation to field offices on the basis of sound criteria. Moreover, appropriate criteria and procedures should be formulated for the posting of Headquarters staff to the field and links should be established between the Investment Promotion Service and field offices in order to reduce costs.

37. The European Union believed that none of the options set out in document IDB.14/25 could be adopted in the present circumstances. The report contained convincing arguments on the establishment of subregional offices serving 95 countries. The option of strengthening the programme with the help of UNDP resources but without using unutilized balances from other budgetary periods was the best, although for the moment the target of 50 offices was unrealistic. Some of the budgetary estimates of contributions from donor States and host countries were very optimistic. In the present state of uncertainty UNIDO should concentrate on streamlining the programme and reducing costs. The European Union favoured the idea of UNIDO offices being installed in UNDP premises in accordance with General Assembly resolutions on joint premises.

38. **Mr. AKAO** (Japan), referring to item 7 (c), welcomed an improvement in the presentation of the programme and budgets, as well as the maintenance of zero real growth in the regular budget. On the other hand, a greater effort was needed to prioritize activities. His delegation approved the significant reduction in administration and operational support, to the benefit of substantive programmes, and the enhancement of the resources of the Internal Audit Unit. He looked forward to the Director-General's report on the Internal Auditor's recommendations and their follow-up. While endorsing the merging of the quality assurance and evaluation functions, he considered that more resources should be allocated to the Mobilization and Management of Financial Resources Division, and particularly to the Government Funds Unit, in order to strengthen capability to raise financial resources.

39. With regard to item 7 (g), he fully recognized that the implementation of the programme of work and technical assistance depended mainly upon the timely payment of assessed contributions, which was an obligation of all Member States. The current situation in which more than a third of Members had not paid their contributions for more than two years was quite abnormal and he urged all Members to meet their obligations, including arrears, without delay. His own Government had paid a quarter of its 1995 assessed contribution in February and the necessary steps were being taken to settle the remainder shortly.

40. Japan took the view that the unutilized balances of the 1992-1993 budget should be returned to Member States in accordance with the financial regulations. When the General Conference had approved the retention of the balance of US$ 8.9 million from the 1990-1991 budget, many countries, including his own, had stressed that it was an exceptional move that should not be repeated. He could not support the suggestion that the unutilized balances should be retained as contingency funds in view of the uncertainty about payment of dues by a major contributor; that would simply encourage non-payment by Member States. Japan's portion of the balance should not be used to cover the shortfalls of other Member States.

41. On the issue of the 6 per cent regular budget ceiling for technical cooperation activities, his Government had long taken the position, and was unlikely to change it, that technical assistance should, in principle, be financed from voluntary contributions. Japan had contributed about US$ 6 million a year to trust fund resources and the Industrial Development Fund and it planned to continue such contributions in future. In his view, the idea of changing the 6 per cent figure was unrealistic, since it would involve a time-consuming amendment to the Constitution. He therefore strongly opposed the proposal.

42. On the subject of item 7 (i), Japan believed that the UCD programme should become an example to the United Nations system of how UNIDO could respond to challenge while providing an effective service. For that purpose, the programme should be financed by voluntary contributions; it should be strengthened by decentralization, greater delegation of authority and the establishment of a system for rotating personnel between Headquarters and the field; and its local costs should be financed by the host Government. He asked the Secretariat to provide more detailed information on the present operation of the programme.

43. With regard to item 7 (b), the addendum to the annual report which dealt with trust fund contributions

(IDB.14/10/Add.2 and Corr.1) should be submitted in an improved format to the General Conference at its sixth session, with fuller information on the allocation of funds on a geographical and sectoral basis for both third-party and self-financed funding.

44. **Mr. EL HUSSEIN** (Sudan), speaking on behalf of the Group of 77, said that the Group was deeply shocked and dismayed by the announcement that the largest contributor to the regular budget intended to default on its legal obligation to pay its assessed contribution. The plea of domestic political or financial difficulties could not justify the withholding of such payment in full and on time by any Member State. Many countries whose domestic situation was far more difficult had made great efforts to fulfil their commitments to the Organization.

45. The development came at a particularly inopportune time. For the past two years UNIDO and its Members had worked together intensively to transform the Organization into an effective instrument for the industrialization of the developing countries. The effort had yielded good results and was to be enhanced even further. The announcement of non-payment by UNIDO's largest contributor could irretrievably damage the reform process and the Organization itself. No organization could function effectively if subjected to financial uncertainty of such magnitude. Moreover, unilateral action of that kind tended to undermine the whole structure of the United Nations system, which was based on the well-established practice of assessed contributions as it had evolved over the past 50 years. Such action could be a severe set-back to the entire multilateral system and to international cooperation as a whole. It was unfortunate that a major assault on the system, motivated by short-term budgetary considerations, should be taking place when the United Nations was celebrating its fiftieth anniversary.

46. The Group of 77 was gratified to note that the overwhelming majority of Member States had reiterated the commitment expressed at the fifth session of the General Conference to provide political and financial support to UNIDO and to meet their obligations to it. The Group therefore called upon the United States Government to make every effort to pay its assessed contributions in full. At the same time, it urged the Director-General to monitor the financial situation closely and to keep Member States informed of developments. The Group was determined to take every possible measure to ensure that the agreed programmes and activities of UNIDO were carried out to the maximum possible extent. The Group warmly appreciated the principled position taken by the Government of Japan on the question of assessed contributions and urged all Member States, and particularly the major contributors, to make every effort to secure the payment of dues in full.

47. **Ms. LAJOUS VARGAS** (Mexico) pointed out that if UNIDO was to fulfil its objectives it must be given the necessary financial resources. A state of financial uncertainty prevailed, however, and the practice of zero real growth and a decline in UNDP resources had further depressed the Organization's financial situation. As at 31 May 1995 accumulated arrears stood at US$ 119 million. Reserves had fallen to a low level and fluctuations in exchange rates gave rise to additional difficulties. As a result of the introduction of zero real growth and a reduced estimate for voluntary contributions, a negative real growth rate of −3.1 per cent was anticipated for the 1994-1995 biennium. Accordingly, her delegation appealed to all Member States to pay their assessed contributions on time and in full. She was pleased to announce that, despite current difficulties, her country had made arrangements to pay its contribution in full over the next three months. It was vital that Member States in a position to do so should make voluntary contributions.

48. Mexico fully supported the Secretariat's proposals to set up a reserve fund and to suspend the relevant financial regulations in order to allow the use of the unutilized balances of the 1992-1993 biennium to strengthen the Organization's cash flow. However, in the present circumstances, she could not agree to change the 6 per cent figure set as a regular budget ceiling for technical cooperation activities. The resources provided under the existing limit should be used as seed capital to raise additional funds for activities under the medium-term plan.

49. Her delegation approved the proposed programme and budgets, 1996-1997 and commended them to the Board. Generally speaking, the proposals (IDB.14/2) reflected the objectives approved at the fifth session of the General Conference and the reforms that had been introduced, while seeking to consolidate the programme of work by concentrating resources on priority areas. It was gratifying to note that greater emphasis had been placed on substantive activities as opposed to administrative duties, with increases accorded to Major Programmes 300, in particular for field representation, and 600, in particular for training projects and small and medium-sized enterprises.

50. On the subject of the UCD programme, document IDB.14/25 presented two options, of which the first, based on the attainment of the established target of 50 offices, could not be completed before the year 2000, while the second involved the establishment of multi-country and focal point offices. She concurred with the conclusion that in the new world context a strengthened

field representation programme was necessary. Consequently an effort should be made to provide the programme with the financial and human resources it needed in order to meet the growing demands for UNIDO's services.

51. **Mr. POROJAN** (Romania) said that, after hearing the Director-General's introductory remarks and the statements by the United States delegation, he regarded the Director-General's suggestions in the report on the financial situation (IDB.14/28) as even more relevant. In particular, he endorsed the draft decision in paragraph 20 of the report and he approved conclusion 95/2 of the Programme and Budget Committee. In view of the vital importance of the programme and budgets for UNIDO's future activities, the Board should adopt the proposed programme of work and the regular budget for submission to the General Conference. Member States should make every effort to increase their voluntary contributions to the Organization. The Director-General should closely monitor UNIDO's financial situation and, if necessary, convene special sessions of the Committee and the Board to consider ways of dealing with any serious deterioration in the situation. While fully aware of the gravity of the present circumstances, he felt confident that UNIDO would survive and prove capable of overcoming the crisis. He agreed with all those who had commended the rationalization of the Organization's activities and the sound management of its financial resources. In conclusion, he fully supported the Secretariat's proposals concerning the UCD programme, including implementation of the field representation programme based on the target of 50 fully staffed field offices by the end of the century.

52. **Mr. MOAMPEA MBIO** (Cameroon) said that his country, as President of the General Conference, could not remain indifferent to the fact that the future of UNIDO was at stake. At the fifth session of the Conference the Member States had resolved to renew their political and financial commitment to UNIDO, and in the Yaoundé Declaration had called upon the international community to provide additional resources to a reformed organization so that it might have even greater impact in beneficiary countries. Unfortunately there had been no progress in that direction. Indeed, given the final communiqué of the Halifax Summit of the Group of Seven and the prospect of a drastic reduction, if not the termination, of UNDP contributions, there were grounds for doubt and despondency.

53. Accordingly, the basic question facing the Board was how to continue the reform process and in particular how to implement the UCD programme, which was of crucial importance to the developing countries. While grateful for the efforts made in that respect by the management, he awaited further clarification of the issues raised by the Programme and Budget Committee with regard to the UCD programme, the Secretariat's wait-and-see approach towards it and its lack of imagination in seeking new funding sources for the programme. In that context the United States attitude should be a stimulus, not to inaction but to further effort. Perhaps the UCD host countries might consider increasing their contributions and the industrialized countries be invited to make up any shortfall that might arise if the United States decision about its contribution was implemented. He therefore called upon the Board to ask the Secretariat to make practical proposals for expanding UNIDO's resources and carrying the reform process forward. In doing that the Secretariat should join with other organizations of the United Nations system facing similar difficulties. All Member States should offer the Secretariat their support.

54. Morocco had suggested a particular course of action as a result of the United States announcement. The Board might consider sending a special mission or a letter not only to the United States but to all the leaders of the countries of the Group of Seven. His own country would spare no effort to ensure UNIDO's survival. It had already paid its contribution in full up to 1997 and was ready to join in any action that could secure the funds needed to implement the Organization's policy of reform and revitalization.

55. **Mr. CELSO de OURO-PRETO** (Brazil) said that a fundamental commitment towards development was the cornerstone of the international order and instruments like UNIDO were of great importance in bringing that about. His delegation fully endorsed the statement made on behalf of the Group of Latin American and Caribbean countries at the first meeting. Industrialization remained essential to rapid economic and social development, yet achieving it was increasingly difficult, because of its complexity and a lack of political will to provide UNIDO with the necessary resources. He congratulated the Director-General on the action taken so far to restructure UNIDO; his efforts were genuine and his accomplishments, solid.

56. He approved the Director-General's proposal regarding the deployment of unutilized balances for the biennium 1992-1993 in order to reduce the negative impact of unpaid assessed contributions. Brazil regretted that the new financial realities made it impossible to allocate US$ 10 million from those balances, as planned, to strengthening the UCD programme, but it was glad that US$ 3 million was available to the programme from UNDP sector support.

57. UNIDO must strive to address international cooperation in all its aspects, whether political, economic or environmental. Since peace and development were intimately linked, one of the Organization's overreaching concerns should be a renewed effort to achieve comprehensive development. As a way of advancing their own interests, richer nations must become actively involved in efforts to overcome the backwardness of the less prosperous. Brazil had always been prepared to work with that broader objective in mind.

58. **Ms. ROZGONOVA** (Slovakia) said her Government had noted with satisfaction that the financial situation under both the regular and operational budgets for 1994-1995 had been improving steadily as a result of better performance in the payment of assessed contributions, although the latest announcement by the United States of America cast a shadow over that situation. Her country had recently paid the remaining part of its assessed contribution for 1995. It agreed with the Director-General that UNIDO could improve its programme implementation only if Member States paid their contributions in time and if the cash resource base was strengthened. Slovakia supported the proposal that the operational budget reserve should represent 15 per cent of estimated biennial expenditure. In the current financial situation, UNIDO should concentrate its efforts on mobilizing additional extrabudgetary resources and not on eliminating the 6 per cent ceiling for technical cooperation.

59. The report on the Industrial Development Fund (IDB.14/5) indicated a decline in pledges in 1993, caused mainly by the reorganization of the Secretariat and the implementation of reforms. UNIDO had received encouragement from Member States, however, in the increase in voluntary contributions to the Fund in 1994. Slovakia believed that trend would continue, in line with growing confidence in the reorganized UNIDO and the pursuit of the reform process. It understood the Secretariat's argument that the fact that the Fund's resources came mainly from special-purpose funding rather than under the general-purpose convertible segment hampered the preparation of projects for technical cooperation. Slovakia had made special-purpose pledges to the Fund at the thirteenth session of the Board; its voluntary contributions had been increasing over the years and it would consider the possibility of making general-purpose as well as special-purpose contributions in future.

60. **Mr. MARCHAN** (Ecuador) endorsed the statement made earlier in the meeting on behalf of the Group of 77. His delegation supported the Director-General's proposal for a temporary suspension of financial regulations 4.2 (b) and 4.2 (c) in respect of the 1992-1993 biennium so as to allow UNIDO, for the purposes of strengthening its cash flow, to retain the unutilized balances in the amount of some US$ 14 million. That proposal was even more relevant in view of the announcement by the United States of America that it would drastically reduce its contributions to the Organization. The development of contingency plans to deal with that situation was a priority and his delegation would approve the convening of special sessions of UNIDO's decision-making bodies for that purpose. Though Ecuador considered the figure set as a regular budget ceiling for technical cooperation activities to be inadequate, in view of the situation created by the United States announcement it would agree to a temporary postponement of discussion on that issue.

61. His delegation welcomed UNDP's allocation of US$ 3 million to the UCD programme for 1997. Of the various options for field representation outlined in document IDB.14/25, the first was the best, namely to use the US$ 3 million provided by UNDP and US$ 10 million from unutilized balances. The projected drop in contributions by the main contributor would certainly have a drastic impact on the budget. Yet UNIDO Country Directors were of crucial importance as a link between Headquarters and Member countries, and also because they enabled UNIDO to meet the new requirements of developing countries more efficiently and more rapidly. His country urged the establishment of subregional UNIDO offices as a response to the growing demand for services in the industrial sphere, as well as the provision of more support for regional and subregional intergovernmental economic cooperation among developing countries. The cooperation that could be furthered by UNIDO was of fundamental importance for his country, particularly in the areas of industry and the environment. Ecuador stressed the need for more efficient planning and coordination of technical cooperation and assistance missions to Member countries.

62. **Mr. DAMANPAK JAMI** (Islamic Republic of Iran) said his delegation had taken note with concern of the information in the report on the financial situation of UNIDO (IDB.14/28). UNIDO had collected only 37 per cent of the assessed contributions to its 1995 regular budget and the total amount of contributions outstanding was over US$ 119 million, equivalent to 100 per cent of the annual budget. If that trend did not improve before the end of 1995, the Organization would face unprecedented cashflow problems which would severely hamper its capacity to deliver technical cooperation. The Secretariat should take appropriate measures to avoid a cash crisis in 1995 and the following biennium by using cost-cutting measures and the unutilized balances for 1992-1993. That would not excuse Member States from fulfilling their duty to pay their assessed contributions to the Organization in full and on time,

so as to allow the reformed UNIDO to implement its approved programmes.

63. The unilateral action foreshadowed by the major contributor to the UNIDO budget contradicted the norms governing international organizations and threatened the very structure of the United Nations system. UNIDO would survive even without some of its Member States — as had UNESCO — but action of that kind was not a reasonable or accepted practice in international relations. Though his Government faced domestic problems emanating from its post-war rehabilitation effort and development programmes, it had made every effort to discharge its financial commitments to agencies such as UNIDO. In 1994 it had paid over US$ 1.3 million of accumulated arrears as well as its assessed contribution. It was taking steps to pay the amount outstanding for 1995, though there might be delay due to the incompatibility of UNIDO's fiscal year with that of his country.

64. He commended the Director-General for the constructive information on the UNIDO field representation programme provided in document IDB.14/25. As the note pointed out, the present programme was ill-equipped to respond effectively to changing demands for services. As part of the ongoing reforms, field representation should be enhanced, since it was the most important tool for promoting and delivering diversified UNIDO services at the country and regional levels. The time had come to agree on a permanent way of financing the cost of field representation out of UNIDO's internal resources, through a combination of regular and operational budget funding, as well as out of resources from UNDP and voluntary contributions.

65. With its wealth of experience in industrial development, the Organization was called on to support the regional and subregional intergovernmental economic cooperation entities operating among developing countries and to respond to their increasing demands for its services, *inter alia*, through the establishment of appropriate subregional offices. A subregional office at the Economic Cooperation Organization, an intergovernmental regional entity comprising 10 Member States in central and western Asia, would facilitate the flow of investment and technology to the new countries in the region and enhance regional cooperation for industrial development. In conclusion, his delegation joined in the developing countries' support for the Director-General's proposals for a new framework for field representation in paragraphs 26-34 of document IDB.14/25 and it fully supported the statement made on behalf of the Group of 77 concerning the financial situation of UNIDO.

66. **Mr. BAJOWA** (Nigeria) said his delegation fully endorsed the comments made on behalf of the Group of 77 with regard to UNIDO's financial situation. The drastic reduction in the contribution of the major contributor would adversely affect the industrialization of developing countries, especially those in Africa. It was encouraging to see the stand taken on the matter by the Japanese delegation. His own delegation reaffirmed its continued support for UNIDO.

67. UNIDO Country Directors were of great importance for the speedy industrialization of African countries. In order to promote that, the UCD programme must be strengthened. The Nigerian private sector had shown increased interest in UNIDO's technical assistance and advisory services since a substantive Country Director had been assigned to Nigeria in 1995. His Government was confident that the strength of the Nigerian economy in the West African subregion would ensure recognition of UNIDO's role there and support from UNIDO Headquarters. The entire programme should be adequately funded.

68. **Mr. SOKOLOV** (Russian Federation) said the expected reduction in contributions to the regular budget for 1995 was apparently attributable to a lack of the political will of some Member States to support UNIDO. Cost-saving measures took on greater importance in such circumstances, especially in branches of the Organization not directly connected with its main activities. Should such measures prove inadequate to compensate for the reduction in contributions, programmes should be inventoried and those of lowest priority curtailed and even abolished. Believing that a close link should be maintained between expenditure and income, the Russian Federation would insist on allocations being curtailed to match any reduction in contributions. Given the current financial uncertainty, the Organization must be more dynamic as well as more prudent.

69. His delegation welcomed the Secretariat's wish to establish a closer correlation between UNIDO's priorities and its financial support. The scale of assessments for 1996-1997 was similar to that of the United Nations, and as such acceptable to his delegation, though it did not reflect the real capacity to pay of some Member States. His delegation intended to work towards a speedy reform of the scale of assessments.

70. In order to increase the volume of technical assistance provided through UNIDO its competitiveness and its attractiveness to donors must be enhanced. Under circumstances of zero real budgetary growth, or as now seemed likely, negative real growth, an increase in the 6 per cent figure set as a regular budget ceiling for technical cooperation activities

was permissible only if offset by a reduction or elimination of other programmes. Areas where such steps could be taken should be identified immediately.

71. The Secretariat's scenarios for field representation were correct and did not need to be discussed further. The Secretariat itself should be left to determine future action in that respect in the light of available financial resources.

72. As an active Member of UNIDO and an economy in transition, the Russian Federation required specific services for its introduction of market-economy industrial techniques. Its support for UNIDO and the ongoing reforms was demonstrated by the fact that, despite its continuing economic difficulties, his Government had been able to contribute US$ 8 million to UNIDO's budget, thereby nearly meeting its financial obligations for the year 1995.

73. **Mr. SÖLENDIL** (Turkey) said his delegation was aware of the constraints UNIDO faced in strengthening the field representation programme. It believed there was a pressing need for stronger field representation in order to improve interaction with a diversified clientele and provide direct advisory services. A flexible approach to establishment of field offices should be adopted: they should be maintained, qualitatively and quantitatively, at their current level, within available financial resources. He welcomed the fact that a UNIDO Country Director had finally been appointed for Turkey.

The meeting rose at 1 p.m.